United Nations E/2001/50

Economic and Social Council

Distr.: General
18 June 2001

Original: English

Substantive session of 2001
Geneva, 2-27 July 2001
Item 2 of the provisional agenda*
The role of the United Nations system in supporting the efforts of African countries to achieve sustainable development

World Economic and Social Survey, 2001**

Chapter I
The world economy in 2001

With recovery from the 1997-1998 international financial crises still incomplete, the world economy is experiencing another setback in the form of a significant decline in the growth of global output and trade. While the previous global economic slowdown was set off by financial turmoil in some developing countries and economies in transition, this one started with a retrenchment in economic activity in the developed economies, particularly the United States of America, during the second half of 2000. The slowdown, which initially emerged in only a few economies, has since broadened and intensified. Although the spillover effects to and among developing countries and economies in transition have so far been less than the contagion witnessed during the 1997-1998 crises, the short-term growth of these countries, as well as their longer-term development, is already being adversely affected.

Earlier forecasts pointed to a slowdown in global economic growth in the second half of 2000, but the rapidity, breadth and depth of the declines had not been envisaged. From over 4 per cent in 2000, the growth of gross world product (GWP) is expected to slow to about 2 1/2 per cent in 2001 (see table I.1), in contrast to the 3 1/2 per cent that was forecast in the previous United Nations assessment of the economic situation in the world economy.[1] The expansion of international trade is also expected to decelerate, to 5 1/2 per cent in 2001 from about 12 per cent in 2000. Only a slight improvement is anticipated for 2002, with the growth of GWP at about 3 per cent and of world trade at some 6 1/2 per cent.

* E/2001/100.

** The final version of World Economic and Social Survey, 2001 will be issued as a United Nations sales publication (Sales No. E.01.II.C.1).

[1] *World Economic Situation and Prospects, 2001* (United Nations publication, Sales No. E.01.II.C.2), chap. I.

01-41565 (E) 110701

Table 1.1
Growth of world output and trade, 1992-2002
(Annual percentage change)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	2001[b]	2002[b]
World output[c]	1.8	1.4	3.0	2.7	3.2	3.5	2.2	2.9	4.1	2.4	3
of which:											
Developed economies	1.7	0.9	2.8	2.3	2.7	3.0	2.5	2.8	3.6	1.9	2 1/2
Economies in transition	-11.8	-6.7	-7.2	-0.6	-0.1	2.2	-0.7	3.0	6.1	3.6	4
Developing economies	4.8	5.2	5.6	5.0	5.7	5.4	1.6	3.5	5.7	4.1	5 1/4
World trade	5.7	4.6	10.5	8.6	5.5	9.2	3.3	5.2	12.3	5.5	6 1/2
Memorandum items:											
World											
Number of countries with rising per capita output	74	68	100	110	122	122	104	102	123	127	..
Number of countries in sample	140	145	145	145	145	145	145	145	145	145	..
Developing economies											
Number of countries with rising per capita output	57	54	65	73	81	77	62	58	73	79	..
Number of countries in sample	95	95	95	95	95	95	95	95	95	95	..
World output growth with PPP-based weights[d]	2.1	1.9	3.9	3.5	3.9	4.1	2.6	3.3	4.7	3.0	..

Source: Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA).
Note: Two dots (..) indicate that data are not available.
[a] Partly estimated.
[b] Forecast, based in part on Project LINK.
[c] Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1995 prices and exchange rates.
[d] Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars.

While there are a number of further downside risks, the probability of a global recession is not considered to be high. The policy responses in major developed economies since the beginning of 2001, including reductions in interest rates and fiscal stimuli, have produced cautious optimism that the slowdown in global growth will end by late 2001. Moreover, since inflation worldwide is benign, and the fiscal position in many major economies has been improved, there is room for further policy stimulus if the situation deteriorates more than anticipated. In addition to arresting the growing spillovers from the slowdown as promptly as possible, policy makers also have to address the risks posed by the large external imbalances among nations that have accumulated over the past decade. More generally, there remains a need for further reform of the global trading system and the international financial architecture in order to facilitate development by securing less volatile and more balanced world economic growth in the long run.

Evolution of the current economic slowdown

The current weakness of the world economy stems from several interrelated developments in the past year; these factors will also be the main determinants of global economic growth in the short term.

The cycle of monetary policy

The slowdown was triggered by escalating monetary tightening in major developed economies, particularly the United States. In the late 1990s, the economy of the United States was growing at a pace that policy makers perceived to be unsustainable, as indicated by an increasingly tight labour market, growing external deficits, negative household savings, and high levels of private sector debt. It was widely feared that, if left unattended, these pressures would result in an acceleration in inflation, followed by a rapid deceleration in growth. In mid-1999, the United States Federal Reserve began to tighten monetary policy with the aim of moderating demand in order to pre-empt a resurgence of inflation and engineer a "soft landing". Central banks in most other developed economies followed the same course and, globally, interest rates were raised by 150 to 200 basis points (bps) within a year. Monetary policy in most developed economies maintained this stance until at least the end of 2000 and in the euro zone, until May 2001.

As more signs of a sharper-than-desired slowdown emerged in the beginning of 2001, many developed countries started to ease monetary policy by reducing policy interest rates. As with the earlier tightening, the Federal Reserve led this adjustment, with five cuts in interest rates, totalling 250 bps, in the first five months of the year. The ongoing monetary easing in more and more developed economies should moderate the slowdown in the global economy. However, the lag between a reduction in interest rates and its effects on the economy is normally at least six months, suggesting that a recovery is unlikely to occur before the second half of 2001.

The collapse in global equity markets

The majority of world equity markets registered substantial losses in 2000 and during the first quarter of 2001. By March 2001, the United States National Association of Securities Dealers Automated Quotations System (Nasdaq) index,

which is heavily weighted by technology shares, had fallen by more than 65 per cent from its peak a year earlier. The downturn also spread to broader United States stock indices, to most other developed country stock markets and to many smaller equity markets, with many Asian emerging market countries suffering the most.

The declining values in global equity markets had an adverse impact on consumer and investment sentiment, leading to reduced consumption and corporate investment. There had previously been fears of a large correction in equity prices and its consequences, particularly in the United States where equity prices had risen rapidly for a number of years. The nature and magnitude of the negative wealth effect on consumers and the adverse consequences for business investment since mid-2000 have been similar to earlier simulations of the consequences of a collapse of major equity markets for world economic growth.[2] The deceleration in business investment in the United States has, however, been even sharper than the magnitudes earlier simulated.

The collapse in the value of technology stocks has also reduced the availability of funding for business investment, in particular initial public offerings (IPOs) for technology companies. The supply of venture capital funds for start-up companies has contracted rapidly, in part because the decline in equity values has inhibited the recycling of funds, but also because investors have become more risk-averse.

Strains have also built up in other financial markets. Corporate borrowing tightened in the second half of 2000, as yield spreads in bond markets rose and banks raised their standards for business loans, particularly in the United States. Yield spreads for external borrowing by developing countries also widened markedly. International bond issuances by major developing countries and economies in transition faltered in the last quarter of 2000, falling to their lowest level since the 1995 crisis in Mexico. However, this was largely because of the economic and political turmoil in Argentina and Turkey. For other developing countries, the financial "contagion" effects have been limited, largely because many of these borrowers are perceived by lenders as being less risky than previously, having reduced their short-term external debt and expanded their foreign exchange reserves since the 1997-1998 crisis. The more flexible exchange-rate regimes adopted over the past two years by many of these economies have also made them less vulnerable to speculative attacks.

Consolidation in the technology sector

For the United States and many other developed economies, investment in the information and communication technologies (ICT) sector grew at 30-40 per cent annually in the late 1990s and was the driving force for their strong overall economic performance. Particularly through trade, it was also the major impetus for economic recovery in several developing countries and economies in transition. In the United States, the economy-wide diffusion of ICT contributed to a rise in productivity growth; in other developed economies, the effect to date has been less because their ICT-investment surge started later.

The ICT revolution appears to be in a period of consolidation. The development of new applications for existing technologies has lagged the pace of

[2] See, for example, *World Economic and Social Survey, 1999* (United Nations publication, Sales No. E.99.II.C.1), box I.2.

ICT capacity-building in recent years and a number of ICT-based businesses have failed to meet original high expectations. For example, many e-retailing businesses either have gone out of business, are on the brink of bankruptcy or are struggling for survival. As a result, investment spending on ICT in the United States was almost flat in late 2000 and early 2001.

However, some analysts argue that the slow development of new ICT applications, especially for consumers, and the unsatisfactory e-business results were due to inadequate investment in some dimensions of ICT: in particular, the lack of bandwidth, or speed of telecommunications over networks, has been seen as a bottleneck that is curbing new applications for consumers and businesses. The technology for broadband transmission is available, but it needs to be built into the infrastructure; this requires more investment spending than most telecommunication service providers can currently mobilize because of their debt from heavy investment spending over the past decade.

ICT will continue to be a driving force for the global economy in the medium to long run, but the duration of the current adjustment and consolidation in the ICT sector in major developed economies is unknown. The advent of the ICT-based "new economy" does not imply that the behaviour of investment in ICT differs from the pro-cyclical nature of business investment in general and therefore does not imply that the business cycle is extinct.

New features of the business cycle

For the past few decades, recessions in the United States were consistently preceded by a surge in inflation as imbalances built up during the upswing led to price pressures. The current slowdown in the United States was not preceded by a major increase in prices because inflation was muted by productivity growth, generally declining prices for most commodities other than oil, the strengthening of the dollar and the growing trade deficit.

At the same time, some analysts believe that the advent of the "new economy" has reduced the links among growth, inflation and the policy response that characterized previous business cycles. This is because the "new economy" has been fostered by the dynamics of corporate profit, the availability of credit, and investment spending, making these factors the key determinants of the new business cycle. During the boom period until the first half of 2000, corporate profits in the United States grew on average at a double-digit annual pace, investment finance was readily available on good terms and business confidence was high. A number of years of rapid growth in new technology sectors prompted a widespread belief that the trend could continue and the number of investors and the quantity of investment in these sectors grew very rapidly.

Correspondingly, the factors behind the slowdown were the interrelated decline in corporate profits, the tightening of credit conditions, and the decrease in investment spending. As a result of the excessive, or imbalanced, investment in the leading sectors, expected profits failed to materialize. The tightening of monetary policy (as a result of fears of overheating and in an effort to curb asset inflation) and the collapse in equity prices caused credit conditions to deteriorate. This combination of factors, rather than an acceleration in core inflation, caused business confidence to decline and brought the investment boom to an end, precipitating the slowdown.

The recent experience suggests that the shift from "boom" to "bust" may be much faster in the present environment than in the conventional cycle. Firms may take aggressive actions to restore profits by reducing labour inputs, trimming inventories and cutting capital spending, causing other firms and economic agents to lower their expectations about future earnings. Fragile stock markets are also likely to decline further in response to the worsening earnings' projections, causing a broader deterioration in consumer and business sentiment and tightening conditions in credit markets. The initial slowdown in manufacturing (a "supply" shock) is thus magnified and spread to both consumer and business spending, becoming a "demand" shock that exacerbates the initial slowdown.

At the same time, the prevailing tight labour market in the United States and improved inventory controls in manufacturing may cause the duration of the slowdown to be shorter than in previous cycles. Because of the costs of re-hiring, employers may opt in the first instance for reduced working hours rather than outright lay-offs if they expect the downturn to be short-lived. Similarly, with the exception of the excesses associated with the technology bubble, the application of new technologies probably means that inventories are smaller than in earlier cycles, especially in manufacturing. Both features suggest that the duration of the downturn will be shorter than usual.

Looking further ahead, however, the recovery may not be as rapid as the downturn because, once lost, business confidence may not improve as quickly as it deteriorated. This is partly because it is likely to take some time to adjust to the excess capacity that has been created by the high rate of investment in certain technology sectors. On the other hand, this excess investment has been concentrated in only a few sectors and investment by "old economy" firms should continue to respond in the conventional manner.

Some analysts have questioned the effectiveness of monetary policy in these circumstances. Reductions in interest rates and the consequential easing in credit conditions are unlikely to have an impact on investment in the technology sectors until perceptions about future profits have improved, although they may have some beneficial effects on investment in other sectors and should also bolster consumption expenditure. At the same time, the consequences of lower nominal interest rates in a period of low and stable inflation may differ from the pattern followed when inflation was high and volatile. In the latter circumstances, changes in monetary policy have a direct effect on inflation and inflationary expectations and therefore on the real interest rate and the level of investment. In an environment of low and stable inflation, monetary policy is less important as a determinant of the real interest rate and may have less impact on business and consumer confidence. In either event, its effectiveness as a policy instrument would be reduced.

The virtuous circles that characterized the transmission mechanisms both within and between the real and financial sectors during the upswing phase of the "new economy" are now better understood. However, there is less clarity about these interactions — and particularly the lags involved — during a downturn. The rapid downturn is widely expected to be short-lived and followed by a commensurately speedy recovery, but the possibilities of either a more extended or a deeper slowdown or a slower recovery cannot be ruled out (see below). Moreover, just as elements of the "old economy" continue to coexist with the "new economy", so elements of the old business cycle will complement the features that characterize

the new cycle. It is this intersection of the old and the new that gives rise to the unusual degree of uncertainty about short-term prospects and complicates the task of policy makers.

The role of higher oil prices

Since early 2000, prices of oil have been higher than for several years and these increased prices have been gradually feeding into the world economy by lowering consumer welfare in oil-importing countries and reducing the profits of non-oil sectors. In September 2000, the price of oil reached nearly 40 dollars per barrel (pb), its highest level in a decade. Every sharp rise in oil prices since the early 1970s (such as in 1973-1974, 1979-1980 and 1990-1991) that was sustained for a period of 6 to 12 months has triggered a significant slowdown in growth, or even a recession, in many developed economies because of the sudden downward shift in consumer and business sentiment. This may be a factor in the present slowdown and, on this occasion, may be more widespread because of the higher oil-intensity of output in developing countries and economies in transition.

Although oil prices have softened since the beginning of 2001, two cuts in production quotas by the Organization of the Petroleum Exporting Countries (OPEC) in early 2001 reduced the likelihood of a substantial fall in oil prices, something that otherwise might have provided support to global economic growth.

Deceleration in crisis-affected economies

Even without the above factors, global growth was expected to decelerate in 2001 because a moderation in growth was anticipated for many developing countries and economies in transition that were recovering from the financial crises of 1997-1998. In particular, the double-digit annual rate of growth achieved by many of the crisis-affected countries between 1999 and mid-2000 was not expected to be sustained. Reflationary policies were not expected to be continued and the strong impetus from external demand since early 1999 was forecast to diminish. Policy makers and observers hoped that the deceleration in growth could be stabilized at a sustainable rate.

The slowdown in the major developed economies since late 2000 has, however, exacerbated the slowdown in these economies. Many of them remain fragile: domestic recovery is not on firm ground, post-crisis financial restructuring has proceeded slowly, and the corporate sector is still overly indebted. Although less vulnerable to external financial shocks than a few years ago, many developing countries and economies in transition remain subject to external demand shocks when their exports have to compete in markets of major developed economies that are undergoing a substantial slowdown.

Other factors

In addition to the above, other, more regional and local, factors have exerted adverse effects on some economies. Several countries have suffered from severe earthquakes and droughts. Escalated military conflicts and political turmoil in some regions and within some countries have substantially impeded economic activity and reduced incomes for the countries involved. The outbreak at epidemic levels of bovine spongiform encephalopathy (informally known as mad cow disease) and that of foot-and-mouth disease in Western Europe have been sizeable supply-shocks for

some economies and continue to pose a threat for international trade and tourism. Finally, the energy shortages that have developed in Brazil and in California, an economically important region of the United States, may have a measurable negative impact on growth in those countries.

Prospects for the global economy

The short-term outlook for the global economy depends to a large extent on the path of the recovery in the developed countries, most particularly the United States. It also depends on the consequent developments in international markets and on the ability of developing countries and economies in transition to absorb the resulting negative external shocks. The vulnerability of these economies to the weaker external conditions depends not only on how closely they are linked to the major economies, but also on the robustness of their domestic economic structures and the soundness of their economic policies. Many developing countries and economies in transition adjusted their policies in the first half of 2001 to strengthen domestic demand and this should mitigate the adverse external impulses to some extent.

The international economic environment

Along with the downturn in the growth of global output, the international economic environment has deteriorated since late 2000, particularly for many developing countries and economies in transition. The main features of the worsening in international economic conditions, however, differ from those during the 1997-1998 international financial crises.

The degeneration of the international economic environment for many developing countries and economies in transition in 1997-1998 was characterized by a sudden and contagious outflow of foreign capital, placing these economies in a balance-of-payments liquidity crisis. These countries initially faced mainly an external financial shock; the other negative developments — such as slower growth of international trade, lower commodity prices, devalued currencies, and worsened terms of trade — were a fallout from the initial financial shock.

In contrast, the most important element in this slowdown has been the external shock to real demand as a result of the sharp deceleration in international trade led largely by the retrenchment in the import demand of the United States. International trade, rather than international financial flows, has been the main channel transmitting the slowdown in the United States to the rest of the world. While there has also been some impact through other international linkages, such as stagnating private capital flows, rising risk premiums on external financing for some developing countries, and softening commodity prices, the magnitude and scope of these effects have been much less than in the previous global slowdown. The highly correlated simultaneous sell-off in equity markets worldwide during 2000 and early 2001, however, was more severe than in 1997-1998.

In the near-term outlook, the growth of **international trade** is expected to decline sharply. The import demand of the United States, which had grown at a double-digit pace for the past few years and served as a driving force for the recovery of many developing countries from the 1997-1998 crises, registered a

significant decline in the first quarter of 2001. As a result, many economies that have close trade connections to the United States, such as those in the Americas and South-East Asia, face a slowdown in their export demand.

Weakening world demand has led to lower prices for many *primary commodities*. Although a replay of the sharp deflation in the prices of almost all commodities during the 1997-1998 crises is not likely, the prices of many non-fuel commodities, particularly agricultural products, are still lower than before the Asian crisis. Commodity-exporting developing countries face the problems of both a downward trend in commodity prices in the long run and high volatility in the short run. Many small, low-income economies face not only the problem of mitigating the short-run volatility in international commodity markets but also the challenge of diversifying their product mix in a period of increasingly specialized global production.

In addition to the deterioration in the international trading environment, the large trade imbalances across major countries, especially the large trade and current-account deficits of the United States, pose a challenge for policy makers. Over the past decade, unbalanced growth among the world's major economies has led to a continuous increase in these external deficits, which reached about $450 billion, or 4.5 per cent of the United States gross domestic product (GDP), in 2000. Despite the decline in import demand of the United States since mid-2000, these deficits are expected to remain high. An abrupt reversal of these deficits would have major deflationary consequences for the world economy and would involve substantial changes in the exchange rates among major currencies (see the last section of the present chapter and box I.1).

Instability in **exchange rates** has increased since late 2000, with many currencies depreciating against the United States dollar. However, the scale of these devaluations has been less than during the previous round of crises. Among the major currencies, the United States dollar has once again appreciated markedly vis-à-vis the Japanese yen and the euro, in spite of the slowdown in the United States economy, its lower interest rates, and its large trade deficit. As indicated above, the short-term prospects for the world economy are critically dependent on how and when the dollar will reverse its trend of appreciation and the reduction in its external deficits will finally begin.

For many developing countries and economies in transition, the trend towards polarized exchange-rate regimes (either a fully floating rate or a fixed peg or similar arrangement, such as a currency board system) continues. Countries with intermediate regimes are facing more pressures, with Turkey as the country most recently forced to abandon its crawling peg. There is no general optimal rule for the selection of an exchange-rate regime, particularly for developing countries and economies in transition, as the trade-off between the stability and flexibility of an exchange-rate regime is always inextricably linked to other domestic policies and to the institutional framework, both of which are specific to individual economies. It remains to be seen which regime will fare better in the current global slowdown.

The global slowdown has also been accompanied by worsening **external financing** conditions for developing and transition economies. Net private capital flows to emerging markets have stagnated at levels that are lower than those prior to the Asian crisis. While foreign direct investment (FDI) flows have remained stable, they continue to be concentrated in relatively few developing economies.

Meanwhile, risk premiums on funds raised in international capital markets by developing countries and economies in transition have increased since the second half of 2000, although they vary from country to country as international investors pay increasing attention to differences in economic conditions among economies. The monetary easing in major developed countries should improve conditions for external financing by developing countries and economies in transition, but external funds for these economies will remain limited in relation to their needs.

The slowdown in global economic growth

From 3.6 per cent in 2000, aggregate GDP growth for the **developed economies** is expected to decelerate to 1.9 per cent in 2001, followed by a rebound to 2 1/2 per cent in 2002 (see table I.2). Although the slowdown in the United States has been the most pronounced within this group, a general weakening became more prominent in many other developed economies in early 2001.

Table I.2
Developed economies: rates of growth of real GDP, 1998-2002
(Annual percentage change[a])

	1998	*1999*	*2000[b]*	*2001[c]*	*2002[c]*
Developed economies	2.5	2.8	3.6	1.9	2 1/2
United States of America	4.4	4.2	5.0	1.8	3
Canada	3.6	4.5	4.7	2.8	3 1/2
Japan	-1.1	0.8	1.7	0.7	1 1/4
EU-15[d]	2.8	2.4	3.3	2.6	3
EU-12[e]	2.7	2.4	3.4	2.7	3

Source: UN/DESA, based on International Monetary Fund (IMF) *International Financial Statistics*.

[a] Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1995 prices and exchange rates.

[b] Partly estimated.

[c] Forecast.

[d] Member States of the European Union (EU).

[e] Euro zone countries.

A recession (that is to say, a decline in GDP for two consecutive quarters) is not expected in the United States, but growth for 2001 is forecast to be only 1.8 per cent, compared with 5 per cent in 2000, with a recovery in 2002 to 3 per cent. The deceleration in the United States in the second half of 2000 was extraordinary: growth of GDP dropped from 5.6 per cent in the second quarter of that year to 1 per cent in the fourth quarter. The monetary easing since the beginning of 2001 is expected to support a rebound in late 2001, while tax reductions are expected to provide some stimulus to growth in 2002.

The Japanese economy is also having a dampening effect on the outlook for the developed economies. It grew 1.7 per cent in 2000, but indicators point to a slowdown in a broad range of economic activities since the beginning of 2001. GDP

is expected to grow by less than 1 per cent in 2001, and only marginally higher in 2002. Household demand, depressed by unfavourable employment and income conditions, remains the weakest sector in the economy. The negative wealth effects of the decade-long deflation in equity and property prices have also curbed consumer spending. At the same time, structural problems (including the mounting volume of non-performing loans in the financial sector, excess capacity in the corporate sector, and the large government debt) continue to bear negatively on other components of aggregate demand.

Compared with Japan and the United States, many developed economies in **Europe** initially remained relatively resilient with respect to the slowdown, but signs of further weakening emerged as 2001 progressed. After registering 3.4 per cent in 2000, growth in the **euro zone** economies is expected to moderate to 2.7 per cent in 2001, before recovering to about 3 per cent in 2002. Weaker external demand, particularly on account of the United States slowdown, the earlier increases in oil prices and depressed equity values in these economies, continues to exert a negative impact. Tax cuts in many of these countries are expected to provide some support for economic growth and the European Central Bank (ECB) reduced its policy interest rate by 25 bps in May 2001, the first easing after the previous cycle of tightening. The extent of the deceleration in GDP growth is expected to vary considerably among countries, with the result that the convergence in growth rates and in other macroeconomic magnitudes observed over the past few years in the euro zone is likely to be reversed.

A moderation in growth is also taking place in **other European economies**, such as Austria, Denmark and Switzerland. GDP growth for 2001 in these countries is anticipated to be significantly below the achievements of 2000 as their exports are expected to slow significantly, not only because of lower growth elsewhere but also because of the appreciation of their currencies against the euro. The impacts of the external slowdown on the United Kingdom of Great Britain and Northern Ireland and of the appreciation of its currency vis-à-vis the euro were not significant in early 2001, but a broader-based deceleration in growth over the course of 2001 is unavoidable.

There was also a slowdown in Australia and Canada and, to a lesser extent, in New Zealand in early 2001. Declining investment spending in the former two economies led the slowdown. Monetary policy in both countries was eased rapidly, and a tax reduction in Canada is expected to provide additional support for domestic demand.

The outlook for the group of **the economies in transition** points to growth's slowing from 6.1 per cent in 2000 to about 3.6 per cent in 2001 and to a figure only slightly higher in 2002 (see table I.3). Most of the driving forces behind the strength of the past year have either faded or been reversed. The weakening external environment does not bode well for many of these economies.

Table I.3
Economies in transition: rates of growth of real GDP, 1998-2002
(Annual percentage change[a])

	1998	1999	2000[b]	2001[c]	2002[c]
Economies in transition	-0.7	3.0	6.1	3.6	4
Central and Eastern Europe	2.5	1.4	4.0	3.5	3 3/4
Baltic States	4.6	-1.7	5.0	4.8	5 1/4
Commonwealth of Independent States	-3.7	4.7	7.9	3.7	4
of which:					
Russian Federation	-4.9	5.4	8.3	3.5	4

Source: UN/DESA and Economic Commission for Europe (ECE).
[a] Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1995 prices and exchange rates.
[b] Partly estimated.
[c] Forecast, based in part on Project LINK.

In 2000, the economies of the **Commonwealth of Independent States (CIS)** experienced its best collective economic performance since the beginning of the transition. For the first time in a decade, all the CIS countries registered positive growth, mainly as a result of higher prices of oil and gas and the depreciated Russian rouble. With the prices of oil expected to soften and the effects of the rouble devaluation fading, growth for the region is expected to fall from 7.9 per cent in 2000 to about 3.7 per cent in 2001. Meanwhile, structural reforms in the region remain challenging and the outcome is uncertain.

The performance of the three **Baltic** economies and **Central and Eastern Europe** in 2000 was driven largely by strong external demand from the European developed economies and the Russian Federation. As external demand from Western Europe is expected to moderate, growth in these economies will need to rely more on domestic demand. GDP growth for Central and Eastern Europe is expected to be about 3 1/2-3 3/4 per cent for 2001-2002 and for the Baltic countries, 5 per cent. The easing of monetary policy and progress with economic restructuring are likely to boost investment gradually.

The economic performance of many **developing economies** in 2000 was encouraging, as 73 out of 95 developing countries that are regularly monitored by the United Nations Secretariat recorded rising per capita GDP, compared with 58 in 1999 (see table I.4). As a result, the proportion of the population living in countries that experienced declining per capita output shrank to 7.4 per cent, with a dramatic improvement in Latin America and Western Asia. In 2000, 31 countries achieved at least 3 per cent growth in per capita GDP, as compared with 23 in the previous year. Encouragingly, some sub-Saharan African least developed countries recorded a rise in per capita GDP of more than 3 per cent in 2000. Nevertheless, almost half the population in sub-Saharan Africa live in countries that suffered a fall in GDP per capita in 2000.

Table I.4
Developing countries: growth of per capita GDP by region, 1998-2001

	Number of countries monitored	*Decline in GDP per capita*				*Growth of GDP per capita exceeding 3 per cent*			
		1998	*1999*	*2000[a]*	*2001[b]*	*1998*	*1999*	*2000[a]*	*2001[b]*
Frequency of high and low growth of per capita output (number of countries)									
Developing countries	95	33	37	22	16	29	23	31	29
of which:									
Latin America	24	8	12	6	6	7	6	6	5
Africa	38	11	15	11	6	12	5	7	11
Eastern and Southern Asia	18	9	2	2	1	7	10	13	8
Western Asia	15	5	8	3	3	3	2	5	5
Memorandum items:									
Least developed countries	40	14	15	13	12	11	5	7	9
Sub-Saharan Africa	31	8	13	10	6	9	3	5	8
Percentage of population									
Developing countries	95	23.1	20.7	7.4	5.9	63.2	61.9	67.7	60.7
of which:									
Latin America	24	55.5	69.0	11.8	16.7	24.3	25.2	26.4	7.1
Africa	38	44.9	38.6	34.0	13.3	27.5	14.3	9.0	21.6
Eastern and Southern Asia	18	13.5	6.6	0.2	0.0	81.0	82.6	90.1	82.2
Western Asia	15	14.5	50.0	10.9	37.8	16.6	9.9	40.8	11.6
Memorandum items:									
Least developed countries	40	29.7	30.9	30.6	17.8	43.0	31.9	39.2	50.7
Sub-Saharan Africa	31	39.4	45.8	47.2	19.4	21.7	6.4	11.5	26.0

Source: UN/DESA, including population estimates and projections from *World Population Prospects: The 1998 Revision*, vol. I, *Comprehensive Tables* (United Nations publication, Sales No. E.99.XIII.9).

[a] Partly estimated.

[b] Forecast, based in part on Project LINK.

The outlook for many developing economies deteriorated in the first half of 2001, albeit to varying degrees. The transmission of the slowdown in developed economies to developing countries is occurring through several channels, such as reduced exports, weakening commodity prices, stagnant capital inflows and tighter credit conditions in international and local capital markets. For the developing countries as a whole, GDP growth is expected to slow from 5.7 per cent in 2000 to 4.1 per cent in 2001, followed by a rebound to 5 1/4 per cent in 2002 (see table I.5).

Table 1.5
Developing countries: rates of growth of real GDP, 1998-2002
(Annual percentage change)

	1998	*1999*	*2000[a]*	*2001[b]*	*2002[b]*
Developing countries[c]	1.6	3.5	5.7	4.1	5 1/4
of which:					
Latin America and the Caribbean	2.0	0.4	3.8	3.1	4 1/2
Africa	3.6	2.7	3.1	4.3	4 1/4
Western Asia	4.1	0.8	5.7	2.6	4
Eastern and Southern Asia	0.5	6.3	7.3	5.1	6
Region excluding China	-2.3	5.9	6.9	4.1	5 1/2
of which:					
East Asia	-4.6	5.9	7.3	3.7	5
South Asia	5.3	5.9	5.8	5.4	6 1/4
China	7.8	7.1	8.0	7.3	7 1/4
Sub-Saharan Africa (excluding Nigeria and South Africa)	3.4	2.1	2.5	3.3	4
Least developed countries	3.8	3.5	4.4	4.4	4 1/2

Source: UN/DESA.
[a] Partly estimated.
[b] Forecast, based in part on Project LINK.
[c] Covering countries that account for 98 per cent of the population of all developing countries.

Among developing countries, aggregate GDP growth in **Africa** is expected to accelerate from just over 3 per cent in 2000 to about 4 1/4 per cent in 2001-2002, in spite of the adverse external environment. Even without significant further negative shocks from any of the exogenous circumstances discussed earlier, however, this growth rate will not be sufficient to reduce poverty by a significant margin in the short term, compounding the challenge for the longer term.

The economic performance of most African countries is highly dependent on two non-economic and one exogenous factor: weather conditions, political stability within a country or subregion and international prices of commodities. Growth rates have diverged significantly among countries in the region as the impact of these factors varies from country to country. Economic activity in a number of African countries was disrupted by military conflicts and political instability in 2000. There have since been renewed hopes for resolving or improving some regional conflicts, such as the war between Ethiopia and Eritrea, and the civil wars in the Democratic Republic of the Congo and Sierra Leone. The economic outlook for South Africa, the largest economy in sub-Saharan Africa, has also improved noticeably.

In 2000, the higher oil prices benefited oil-exporting economies in the region and these countries are expected to continue to sustain investment and consumption in 2001. On the other hand, the higher import bill for oil, declining prices of such agricultural commodities as coffee and cocoa, and unfavourable weather conditions, both flooding and drought, led to lower growth for many other economies in the region. With the moderate decrease in oil prices and some improvement in a number

of commodity markets, economic prospects in some of the oil-importing countries should improve in 2001.

The rapid recovery of many economies in **Eastern and Southern Asia** in 1999 and most of 2000 was halted abruptly by the sudden slowdown of the United States economy. Aggregate GDP growth for this group (excluding China) is expected to decelerate from 6.9 per cent in 2000 to 4.1 per cent in 2001, followed by an improvement to 5 1/2 per cent in 2002.

Because many economies of this region are highly integrated in the international economy, they are vulnerable to the current external demand shock, as reflected in the fall in export growth of several East Asian economies from an annual rate of over 20 per cent in the first half of 2000 to a single-digit rate in the first quarter of 2001. As a result, industrial production in these economies, particularly ICT-related production, has registered an absolute decline or no growth. Furthermore, lower stock market prices, rising unemployment in manufacturing, and weakening consumer confidence are expected to curb private consumption in many Asian economies.

The outlook for China and India is more positive. GDP growth in China is expected to be resilient, though moderating from 8 per cent in 2000 to 7.3 per cent in 2001. Strengthening domestic demand, supported by more accommodative macroeconomic policies, will offset the expected slowdown in exports. India is expected to maintain a rate of growth of about 6 per cent, as the anticipated rebound in agricultural output from the unfavourable conditions in the last growing cycle is expected to offset the slowdown in ICT-related sectors.

Elsewhere in the region, growth in 2001 is expected to moderate by 1-2 percentage points for such economies as Bangladesh, Nepal, Pakistan and Sri Lanka. The deceleration has various causes, ranging from the expected decline in exports, to dampened rural income as a result of crop failure in the previous growing year, to continued political instability.

After recovery in 2000, economic growth in **Latin America and the Caribbean** is expected to slow from 3.8 per cent in 2000 to 3.1 per cent in 2001, but to rebound to 4 1/2 per cent in 2002. The region is facing worsening external conditions: exports to the United States provided strong support for the region's recovery in 2000, but are anticipated to slow substantially; private capital inflows are expected to decline; widening yield spreads on the region's debt are raising the cost of international borrowing; and the international prices of many commodities that the region exports are softening. Growth in a number of economies, such as Mexico and several countries in Central America and the Caribbean, is expected to decelerate sharply because of their close trade linkages with the United States. Other countries, such as Brazil, that have improved their economic fundamentals and whose exports are less dependent on the United States, are expected to be much less affected. A few economies, such as Ecuador and Venezuela, may be able to continue, or even to accelerate, their recovery. The major uncertainties and the downside risks within the region continue to be concentrated on Argentina, where market confidence is low while economic agents await policy measures to resolve the problems posed by the country's unsustainable public debt and to revive domestic private-sector demand.

Economic growth for many countries in **Western Asia** is forecast to slow after a strong performance in 2000 due to the higher oil prices. GDP is expected to increase by 2.6 per cent in 2001, down from 5.7 per cent in 2000, but to rise by 4 per cent in 2002. The surge in oil prices in 2000 was a major benefit to the oil-exporting economies in the region and led to increases in government spending, business investment, and private consumption. However, despite the cuts in production quotas by OPEC members, oil prices are expected to soften in 2001 because of the slowdown in global demand. The combination of lower prices and policies to reduce production will lead to lower oil revenues for these economies.

Growth for the oil-importing countries in the region was mediocre in 2000. The escalating conflicts in the region, especially between Israel and the Palestinian Authority, have not only caused considerable losses for the economies directly involved, but have also negatively affected neighbouring economies. The short-term outlook for Turkey has deteriorated since November 2000 because of two financial shocks; these led to severe losses in the banking sector, and forced the floating of the exchange rate, which depreciated sharply.

Benign inflation outlook

No major acceleration in inflation is forecast for 2001. The slowdown in economic growth worldwide is expected to create spare capacity and to remove some of the inflationary pressures that built up previously. Prices of non-oil commodities and high-technology goods have declined owing to the slowdown, and the loosening of labour markets is likely to curb wage growth. Inflation expectations, as measured by inflation-indexed securities in financial markets, have also moved lower. "Headline" inflation rates in many countries may, however, increase in the near term as the pass-through to other economic activities of the higher energy prices that have prevailed since 2000 is likely to continue. There may also be increases in inflation in economies that have recently experienced currency depreciation.

In many developed economies, headline inflation rates have risen since the second half of 2000. Most of these economies, except Japan, registered annual inflation rates in the range of 3 to 4 per cent in 2000, about 1 percentage point higher than in 1999; the same pace continued in the first quarter of 2001. Higher oil prices, rising food prices, and the upward drift in unit labour costs were the main causes for the rise in inflation in these countries. In addition, weakening currencies exacerbated the situation in many cases, especially where currencies depreciated against the United States dollar. The rise in "core" inflation (that is to say, excluding products with volatile prices, such as energy and food, and removing changes in taxes on goods and services from the computation) has so far been milder than the change in headline inflation. Annual inflation rates for most developed economies are expected to drop below 3 per cent by the end of 2001 as a result of weakening demand and softening oil prices. As oil prices soften, the driving force that made headline inflation diverge from core inflation will also peter out. In Japan, deflation has been a major policy concern for the past several years. Mild deflation is expected to continue for some time, despite the shift in monetary policy towards a reflationary bias.

Inflation rates in developing countries and economies in transition are likely to remain largely unchanged, but some divergent trends have come to the surface. In economies where inflation rates had been high in the past few years and where stabilization of inflation remains a key policy objective, such as a number of countries in Latin America and members of the Commonwealth of Independent States (CIS), disinflation continued during 2000 and into early 2001. On the other hand, many economies in Eastern and Southern Asia and in the Central and Eastern European and Baltic regions experienced a moderate rise in inflation rates for reasons comparable with those in many developed economies — higher oil prices and, in several cases, weaker currencies. There was also an increase in inflation in some African economies. Sounder macroeconomic management and continuation with structural reforms, aimed in particular at improving economic efficiency, are expected to reduce inflation rates further in high-inflation developing countries and economies in transition and to assist in maintaining control over inflation elsewhere.

Mixed employment situation

The global slowdown has weakened global labour markets which, in many developing countries and economies in transition, were only beginning to recover from the 1997-1998 setback. In many economies, the initial slowdown in manufacturing is transmitted to the household sector through labour markets. The response in labour markets usually lags the movement in output, but the flexibility of labour markets in many economies has improved in recent years owing to structural reforms. As a result, lay-offs in several countries have increased rapidly along with the slowdown in the growth of output, especially in manufacturing. Nevertheless, the employment situation still varies across countries and regions, depending on the flexibility of labour markets and on economic structures, and especially on the importance of exporting sectors and of manufacturing.

In the United States, the tight labour market has started to loosen with the implementation of many previously announced lay-offs and the unemployment rate is expected to rise to about 5 per cent over the course of 2001. The unemployment rate is also expected to rise in Australia and Canada. In contrast, recent improvements in Western Europe are not expected to be reversed significantly. The average unemployment rate in the European Union (EU) dropped by more than 1 percentage point in 2000 to below 9 per cent. It is expected to decline further in 2001, but at a slower pace. The growth in employment in many Western European economies has resulted not only from the strong growth of output, but also from longer-term structural improvements in labour markets enacted by several of these countries. The outlook for employment in Japan remains gloomy in the short run because of ongoing corporate restructuring and fragile overall economic growth.

The employment situation in economies in transition and developing countries varies considerably. Unemployment rates in the Russian Federation, Central and Eastern Europe and other economies in transition remain, on average, very high. However, for the first time in many years, there was a marked decline in the Russian Federation's unemployment rate in 2000. In Asia, the unemployment rate continued to fall in line with the recovery in economic growth for most of 2000. Data for subsequent quarters, however, indicate a mild reversal of that trend in a number of Asian economies, owing to weakening industrial production and exports. The unemployment rate in several economies at the centre of the 1997-1998 crises,

especially Indonesia, continues to be higher than before those events. In China, the large number of lay-offs from the State sector remains a concern. Unemployment rates are high in most Latin American countries. While a few Latin American economies, such as Brazil, Chile and Venezuela, lowered their rate of unemployment slightly in the course of 2000, rates in other countries, where they were already at double-digit levels, increased. The worst situation prevails in Africa: urban unemployment rates are in the range of 15 to 20 per cent or higher, and under- and unemployment are a major cause of poverty and related problems.

Macroeconomic policy developments

Since the beginning of 2001, the stance of macroeconomic policy in many economies has become more stimulatory: led by reductions totalling 250 bps in the United States, more and more central banks have been lowering interest rates and many Governments have reduced taxes or increased expenditure. The accommodative policy environment is expected to be maintained in 2001 in an effort to secure and sustain a recovery in global economic growth.

Monetary policy makers in many economies have been very active, in the sense that they have made frequent adjustments in policy interest rates in an attempt to fine-tune the pace of economic activity. This was in part a consequence of the increasingly complicated environment for national policy-making, resulting from rapid technological and financial innovation, and intensifying global economic integration. The new cycle of policy-easing has only just begun, but avoiding unnecessary swings in policy will remain a challenge for central banks.

In the outlook, further monetary easing is expected in most developed economies, although most of the interest-rate cuts by the major central banks have probably already been made. Despite the general easing trend, the policy stance varies among major central banks, reflecting the differences in monetary policy regimes. The ECB had reduced interest rates by only 25 bps by the end of May 2001, as compared with the several cuts by other major central banks. This is mainly because the sole goal of the ECB is to keep inflation in the euro area within a range of zero to 2 per cent and the headline inflation rate in the area exceeded the upper band of this range. In contrast, the Bank of Japan has introduced some unorthodox measures, including shifting the target of monetary operations from the overnight interest rate to the Central Bank's quantity of liquid assets; using the consumer price index (CPI) as a major guideline for the duration of the new monetary easing, with the goal of reaching a stable CPI exceeding zero inflation; and increasing its outright purchases of long-term government bonds to ensure a smooth supply of liquidity.

The monetary policy stance in developing countries and economies in transition has varied. Central banks in a large number of these economies (including Chile, Hong Kong Special Administrative Region (SAR) of China, India, Poland, the Republic of Korea and Taiwan Province of China) started to ease policy as more signs pointed to weakening growth in these economies. More such action is expected if the current deceleration continues. However, interest rates are still relatively high in many of these economies, notably in Central and Eastern Europe and Latin America, because inflationary pressure, macroeconomic imbalances and the potential for devaluation limit the central banks' room for manoeuvre in reducing them. More generally, the strength of the United States dollar vis-à-vis

their currencies has limited the capacity of many other developing countries and economies in transition to reduce interest rates.

Fiscal policy in most developed economies is expected to be moderately relaxed in 2001 as a result of tax reductions or increases in government spending, or both. A majority of developed economies, Japan being an exception, registered a budget surplus in 2000. Fiscal policy has since been revised so that it can play a more active role in countering the economic slowdown. Several developed economies have cut taxes or adopted tax reforms in which tax cuts are one component. Other developed countries are planning to follow suit. Fiscal surpluses are expected to diminish in most developed economies during 2001-2002: the growth of revenue will decelerate (or become negative) because of tax cuts and the slowdown in economic activity, and expenditure will rise, either because of increases in discretionary spending or as a result of automatic stabilizers, or both. Meanwhile, the large government deficit in Japan is expected to continue in 2001-2002.

Most developing countries and economies in transition have fiscal deficits, although a number reduced the shortfall in 2000, either by raising revenues, as in oil-exporting economies, or through expenditure cuts, as in several Latin American countries. The economic slowdown, however, is expected to worsen the deficits in many of these economies in 2001, leaving their policy makers only limited room for expansionary fiscal measures to counter the slowdown. Moreover, large fiscal deficits and high public debt-to-GDP ratios have been posing a threat to macroeconomic stability in several of these economies, as shown by the financial crises in Argentina and Turkey in late 2000 and early 2001.

Uncertainties and downside risks

The outlook discussed above is based on the expectation of a "V-shaped" recovery in the United States; that is to say, in the same way that the slowdown took hold very quickly and then intensified rapidly, it is expected that there will be a correspondingly rapid acceleration in growth starting in the second half of 2002. This should allow global economic growth to return to its long-run pace of about 3 per cent in 2002. However, there are substantial uncertainties and several downside risks that might lead to a less attractive outcome.

The biggest risk for the global economic outlook is a deeper and longer slowdown than anticipated in the United States, with larger spillovers to the rest of the world through sharp adjustments in its current-account deficit. The European economies would then be unlikely to maintain the forecast degree of buoyancy. It would also be more difficult for Japan to address its lingering structural problems, thus worsening the pessimism that its economic situation and political uncertainties have been imparting to economic agents. At the same time, external constraints would confine the room for stimulating domestic demand in the majority of developing countries and economies in transition. Collectively, these events would have wider repercussions on economic growth in the near term for the world as a whole, but especially for many developing countries.

The large trade and current-account deficits of the United States continue to pose a major risk. As indicated above, these reached 4.5 per cent of GDP in 2000, aggravating concerns about their sustainability and the consequences of any drastic

reversal, especially given the domestic slowdown and the shape it has taken. There is no precise indication of what level of current-account deficit is sustainable, but experience suggests two propositions. The first is that a reversal in the current account of developed economies typically starts when that external deficit reaches about 5 per cent of GDP. The second is that the nature of the reversal is a combination of slowing domestic economic growth and a significant depreciation of the exchange rate.

The sustainability of the prevailing trade and current-account deficits in the United States depends, to a large extent, on the ability of the private and public sectors to continue borrowing abroad, either through formal capital markets or by accumulating dollar revenues. The total foreign debt owed by United States agents, as measured by the country's net foreign investment position, is about 20 per cent of GDP. It therefore remains well below the ratio of 40-50 per cent, and in some cases even more, that several developed economies reached in the 1990s. However, the share of the output of the United States that is traded is only about 25 per cent of GDP and its exports of goods and services are less than 12 per cent of GDP, so that its foreign debt is about 80 per cent of its tradable GDP and about double that figure as a proportion of export earnings. These magnitudes suggest that the external deficits may not be as sustainable as other indicators suggest and may need to be compressed in the near future.

This could be accomplished either through cuts in domestic absorption, notably investment, or through a rise in domestic savings (since the current-account deficit mirrors the difference between saving and investment). The adjustment could be a smooth process or an abrupt reversal, involving a sharp devaluation of the dollar with respect to major currencies and a marked reduction, or even a reversal, of capital inflows.

Model simulations, utilizing the LINK modelling system,[3] were carried out to study different possibilities for reducing the deficit. Among them, a pessimistic variant assumes that the adjustment will be accomplished mainly by correcting the private sector's saving-investment imbalance through reductions in domestic absorption in the United States (see box I.1). Such a compression over the period 2001-2002 would have significant deflationary effects not only on the United States and the developed countries, but also on many developing countries. Reflecting their integration with the United States economy, the developing countries of Latin America and South and East Asia would be among those disproportionately adversely affected.

The results imply that the larger part of rebalancing the private sector saving-investment gap in the United States would be accomplished by cutting investment and the smaller part by raising the saving rate. This is probably the worst case that most observers would consider plausible. However, even this case involves only a 15 per cent depreciation of the effective exchange rate for the dollar. A model could not adequately capture the consequences of a larger depreciation of the dollar against major currencies or of possible turmoil in financial markets, but the adverse consequences would be considerably greater.

[3] Project LINK is an international collaborative research group for econometric modelling, coordinated jointly by the Development Policy Analysis Division of the United Nations Secretariat and the University of Toronto.

Through international linkages, the United States adjustment would have a significant deflationary impact on the global economy. Total world trade would shrink considerably, the trade surpluses of Japan and the economies of EU would be cut sharply (in part because of the appreciation of their currencies in terms of the dollar) and the combined trade balance of developing countries would deteriorate substantially. The outcome would be a decline in global growth of about 1.7 percentage points from the baseline over two years, equivalent to a loss of output of some $600 billion. The reduction in investment that this involves not only implies a decline in domestic demand in the period concerned, but also results in a smaller capital stock for the longer run. An adjustment of this nature therefore lowers output and income growth in the long run, as well as in the short run.

Box I.1
A downside scenario

The simulation of a reduction in the United States trade deficit by more than $200 billion over two years is mainly induced by compressing import demand; this declines by $224 billion as a result of a drop in consumption by 5.7 per cent and a decrease in private investment by 14 per cent (see table). The scenario implies a loss of gross domestic product (GDP) in the United States by about 4.6 per cent over two years, with a sizeable impact on the country's other macroeconomic aggregates and a pronounced deflationary effect on the global economy.[a]

World exports would be reduced by more than $300 billion, or 4 per cent, from the baseline. The trade surpluses of the European Union (EU) and Japan would be compressed by $47 billion and $31 billion, respectively. The adverse impacts on developing countries would result from a drop of $75 billion in their collective trade balance, with the largest impact being on countries in South-East Asia and Latin America. Measured relative to GDP, the cost to the global economy of this scenario would be $600 billion, or 1.7 percentage points from the baseline over two years.

[a] For complete information on this simulation, see Pingfan Hong, "Global implications of the adjustment in the United States trade deficit", Department of Economic and Social Affairs Discussion Paper, No. 17 (ST/ESA/2001/DP.17), http://www.un.org/esa/papers.htm.

Main results of a simulation of a $200 billion reversal of the United States trade deficit

	Change from the baseline over two years	
	Billions of dollars	*Percentage*
United States of America		
Trade balance	+206	
Imports	-224	
GDP		-4.6
Consumption		-5.7
Private investment		-14
Effective exchange rate		-15
Unemployment rate		+2[a]
Inflation rate		-2.7[a]
World trade	-307	-4
Trade balances		
Canada	-39	
European Union	-47	
Japan	-31	
Developing economies	-75	
Latin America	-30	
Southern and Eastern Asia		-25
GDP		
World		-1.7
Developed economies		-1.8
Developing economies		-1.6

[a] Percentage points.